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Oil & Gas

Raising Long-term Oil Prices

Mid-cycle oil prices increased to $65/bbl ... We are raising our long-term oil price forecast to $65/bbl WTI (previously $55/bbl). Our 2007 and 2008 assumptions have also been raised to $65/bbl (previously $60/bbl). For a full explanation, please refer to Doug Terreson's note published today entitled *Raising Oil Price Forecasts*.

… but we also factor in a weaker dollar and higher costs. We are also incorporating into our new estimates a weaker dollar and higher costs to reflect further tightening in the service industry.

Integrateds: Our mid-cycle earnings for the group rise by around 8%, which leaves the group trading at 10x PE (2007-10e). Price targets are raised by 6% on average to reflect increases in fair value. We now see some 21% potential upside for the group from current share price levels. Total and BG Group are our preferred names.

E&Ps: This group is the biggest beneficiary of the mid-cycle oil and UK gas price upgrades. NAVs are raised by between 4% and 23%. Our top picks are Tullow and Soco.

Refiners: While long-term refining assumptions are unchanged, we are downgrading our price targets to reflect modestly weaker margins for this year ($6.90/bbl) and next ($6.75/bbl), and to incorporate the change in the dollar. We continue to advocate a more cautious stance on the refiners. Our top pick is Petroplus.

Russian Oils: Structurally higher crude prices is a fundamental endorsement of Russia as a long-term 'winner'. Our top pick is Gazprom.

Attractive view on Energy: Before the recent volatility in equity and oil markets, we argued that Energy was fundamentally undervalued. We see no reason to change this view. Our order of preference is for the Oilfield services, E&Ps and some of the more leveraged mid-caps. The Supermajors should also outperform the market, buoyed by the return of operational momentum and as the market discounts higher normalised prices.

Industry Views

Industry	Industry View
Oil & Gas	Attractive

GICS Sector: Energy

Strategists' Recommended Weight	9.8%
MSCI Europe Weight	9.8%

European Oil & Gas Coverage	
Integrated Oils	Neil Perry
Integrated Oils	Theepan Jothilingam
Russian Oils	Matthew Thomas
Refiners	Andrew Bowman
Oilfield Services	Martijn Rats
E&P	Michael Alsford

Changes to Price Targets

Company	Old	New
BP (GBp)	630	670
Royal Dutch Shell (GBp)	2300	2400
Total (€)	65.5	70.0
Eni (€)	28.5	30.0
Repsol YPF (€)	25.3	26.5
BG Group (GBp)	900	950
OMV (€)	49.5	52.0
Petroplus (SFr)	160.0	142.5
Neste Oil (€)	28.0	26.5
Galp (€)	11.4	11.6
Saras (€)	4.9	4.7
ERG (€)	21.00	19.25
Tullow Oil (GBp)	610	690
Cairn Energy (GBp)	1750	2160
Soco (GBp)	2330	2750
Burren Energy (GBp)	835	950

Source: Morgan Stanley Research

Positive on the Outlook for Crude Prices

We are raising our long-term oil price assumption to $65/bbl (previously $55/bbl). We believe that while the rate of change in pricing (c. +20% in the last five years) is likely to slow, realisations should remain at high levels. In the near term, we expect prices to be around $65/bbl during 2007 and 2008. We are also updating our assumptions on gas prices, the US dollar and refining margins, though the changes are less material. A complete breakdown of our macro changes is shown in Exhibit 1. We remain positive on the outlook for crude prices.

The changes we are making today only serve to reinforce our Attractive view on Energy. While the financial implications for higher oil prices are more muted than in previous years, we are upgrading our estimates for the larger names by 8%. We think Energy looks undervalued both in absolute terms and relative to wider equity markets. The process of upgrading consensus oil prices and hence investors' perceptions of value should provide a catalyst to close valuation discounts, in our view. We are raising our price targets for the Integrated names and the E&Ps while we have made some modest downward adjustments to the refiners.

For a full explanation of the reasons for the changes, please consult Doug Terreson's report published today entitled *Raising Oil Price Forecasts*, which discusses the economics of the energy chain from crude to refined products. For longer-term crude pricing, the report discusses upstream re-investment economics and OPEC utilization but also, importantly, the supply, demand and economics for end-user refined products.

Other macro changes; raising long-term US gas prices

In conjunction with the move on long-term oil prices, we are increasing our long-term US natural gas forecast to $8.00/mmcf (from $7.25/mmcf). Our 2008 forecast is unchanged. In Europe, we have lowered our short-term estimates for UK gas prices as a result of increased supply although the longer-term assumption has been raised to 41p/therm.

Lowering dollar forecasts

With the continued weakness in the dollar, we are also moving our currency forecasts closer to spot levels. Our dollar/sterling forecast moves to 2.00 (previously 1.90) while our dollar/euro forecast moves to 1.35 (previously 1.30).

The long cycle – moving to $65/bbl

Supply economics: Our analysis indicates that crude prices of $65/bbl will be required to achieve returns of 10% on new upstream investment.

Demand to exceed non-OPEC supply: During the period 2007-12, we forecast demand to grow by 8.7mb/d which compares with an increase in non-OPEC supply of 3.0mb/d. The implied call on OPEC will increase by 5.7mb/d.

OPEC policy: The group will focus on the 'right price for producers and consumers'. We expect this should be at the top end of the $50-70/bbl range.

Exhibit 1

Changes to our macro assumptions

Commodity prices		2007	2008	2009	2010
Brent ($/bbl)	New	65.12	64.00	64.00	64.00
	Old	60.62	58.00	53.00	53.00
	Change (%)	*7*	*10*	*21*	*21*
WTI ($/bbl)	New	64.52	65.00	65.00	65.00
	Old	60.77	60.00	55.00	55.00
	Change (%)	*6*	*8*	*18*	*18*
US Gas ($/mmcf)	New	6.73	8.00	8.00	8.00
	Old	7.33	8.00	7.25	7.25
	Change (%)	*-8*	*0*	*10*	*10*
UK Gas (p/therm)	New	25.0	34.5	41.0	41.0
	Old	33.5	38.2	38.2	38.2
	Change (%)	*-25*	*-10*	*7*	*7*
Refining margins					
Rotterdam margin $/bbl	New	6.88	6.75	6.75	6.75
	Old	7.32	7.25	6.75	6.75
	Change (%)	*-6*	*-7*	*0*	*0*
FX assumptions					
$/£	New	1.99	2.00	2.00	2.00
	Old	1.94	1.90	1.90	1.90
	Change (%)	*3*	*5*	*5*	*5*
$/€	New	1.34	1.35	1.35	1.35
	Old	1.31	1.30	1.30	1.30
	Change (%)	*2*	*4*	*4*	*4*
NKr/$	New	6.06	6.00	6.00	6.00
	Old	6.26	6.40	6.40	6.40
	Change (%)	*-3*	*-6*	*-6*	*-6*

Source: Morgan Stanley Research estimates

Incorporating higher costs

One of the key reasons for a more positive view on crude prices is that we continue to see upward pressure on upstream costs. We have therefore now incorporated into our upstream financial projections cost inflation of about 10% CAGR to 2010 (previously 3%).

'Fine-tuning' short-term European refining margins
Having witnessed lower than expected refining margins in Q3, we now also expect a modestly lower outcome for Q4 with inventory for distillate in Europe remaining above historical levels. Our 2007 estimate is lowered 6% to $6.88/bbl. For next year, our analysis indicates that global capacity supply additions should exceed demand in 2008 by c. 130 kboe/d. We argue that margins should remain structurally higher than the levels experienced five years ago, albeit they are unlikely to see positive momentum from 2007 levels. We have therefore revised our 2008 estimates to $6.75/bbl (from $7.25/bbl), which is a similar level to our mid-cycle estimate.

Earnings impact

In the table below, we show the earnings impact of the changes for each of the companies under our coverage.

- **Integrateds:** 2007 and 2008 earnings changes are negligible with higher oil price assumptions negated by weaker dollar and lower refining assumptions. Longer-term estimates are raised in aggregate for the group by 8% albeit we flag that the financial implications of higher oil prices are less significant than in previous years.

- **Refiners:** we see moves that are meaningful in the short-term numbers. Our earnings estimates have been lowered by 10% for this year and 13% for 2008, reflecting the slightly more cautious outlook on margins, costs and the impact of the dollar. Mid-cycle numbers are essentially only impacted by the currency change, with earnings revised lower by 5%.

- **E&Ps:** 2007 and 2008 estimates are essentially unchanged. The changes to our mid-cycle numbers are more material, driven by the long-term oil price change with earnings raised in aggregate by 18% in 2009.

Exhibit 2
EPS Changes, 2007–10e (%)

EPS Changes	2007	2008	2009	2010
Integrateds				
R D Shell (GBp)	0	0	6	6
BP (GBp)	3	0	11	8
Total (€)	-2	-4	9	9
Eni (€)	4	4	11	11
Statoil (NKr)	2	0	9	8
BG Group (GBp)	2	-4	3	3
Hydro (NKr)	0	-1	9	10
Repsol (€)	0	-6	3	2
OMV (€)	1	0	12	13
Sector	**1**	**-1**	**8**	**8**
Refiners				
Neste (€)	-7	-10	-6	-6
Saras (€)	-5	-7	-6	-6
ERG (€)	-16	-17	-6	-5
Galp (€)	-2	-2	4	5
Petroplus ($)	-34	-26	-13	-13
Sector	**-10**	**-13**	**-5**	**-5**
E&P's				
Tullow (GBp)	-10	0	12	12
Soco (US$c)	0	12	12	9
Dana (GBp)	3	2	21	20
Cairn (US$c)	23	14	29	23
Burren (US$c)	0	4	16	15
Sector	**0**	**4**	**18**	**18**
Russians (in US$)				
Rosneft	14	26	33	19
Gazprom	-8	2	-1	3
Lukoil	12	-2	3	0
Novatek	17	7	-6	-11
Surgutneftegaz	1	10	-3	-6
Gazpromneft	14	2	4	5
Sector	**1**	**5**	**3**	**4**

Source: Morgan Stanley Research estimates

Summary of price target changes

The changes we are making have mixed implications for our fair value calculations for the group. Overall, we are raising our price targets for the integrateds and the E&Ps while we are making downward revisions to the refiners.

Exhibit 3
Summary Price Target Changes

	Share Price (as of 31/08/07)	Old PT	New PT	Change in PT	Upside / (Downside)
Integrateds					
R D Shell (GBp)	1925	2300	2400	4%	25%
BP (GBp)	558	630	670	6%	20%
Total (€)	55.25	65.5	70.0	7%	27%
Eni (€)	25.38	28.5	30.0	5%	18%
BG Group (GBp)	794	900	950	6%	20%
Repsol (€)	26.48	25.3	26.5	5%	0%
OMV (€)	45.55	49.5	52.0	5%	14%
Sector				**6%**	**21%**
Refiners					
Neste (€)	25.38	28.00	26.50	-5%	4%
Saras (€)	4.50	4.90	4.70	-4%	4%
ERG (€)	16.31	21.00	19.25	-8%	18%
Galp (€)	10.99	11.40	11.60	2%	6%
Petroplus (SFr)	105.00	160.00	142.50	-11%	36%
Sector				**-4%**	**11%**
E&P's					
Tullow (GBp)	512	610	690	13%	35%
Soco (GBp)	1996	2330	2750	18%	38%
Dana (GBp)	968	1300	1300	0%	34%
Cairn (GBp)	1797	1750	2160	23%	20%
Burren (GBp)	811	835	950	14%	17%
Sector				**15%**	**29%**
Russians (in US$)					
Gazprom	41.55	63.35	63.35	0%	52%
Rosneft	8.23	10.90	10.90	0%	32%
Lukoil	74.70	105.30	105.30	0%	41%
Novatek	50.00	68.30	68.30	0%	37%
Surgutneftegaz	1.27	1.66	1.66	0%	31%
Gazpromneft	3.60	4.60	4.60	0%	28%
Sector				**0%**	**43%**

Source: Morgan Stanley Research estimates

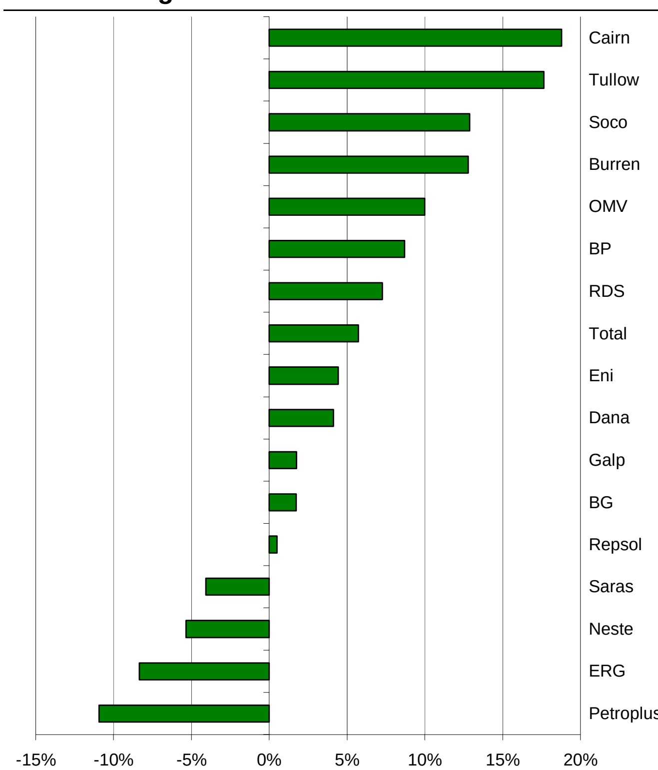
For the integrateds, the oil price is a positive though is partly offset by the currency and higher upstream costs. The largest move in price target is for OMV (+9%) with the smallest being for Shell (+4%).

The E&Ps are the greatest beneficiaries of a 'stronger for longer' call on crude. We have also made some updates outside the commodity price that relate to more stock-specific issues that we outline later in this report. Price target changes vary between flat for Dana to a 23% rise for Cairn.

For the refiners, the net change is negative as we assume lower margins for this year and next. The only positive change is for Galp (+2%) where the above factors are offset by a higher value being placed on its E&P business.

For Russian oils, we have raised our fair value estimates by 5-15%. We maintain our positive view and see some 43% upside for the group. The precise justifications for changes in response to the price upgrade will be explained in a separate research note by our Russian oil analyst, Matthew Thomas.

Exhibit 4
Net Change to Long-Term DCF Valuation from macro changes



Source: Morgan Stanley Research estimates

Exhibit 5

New EPS Forecasts, 2007–10e (local currency)

EPS Local	2007	2008	2009	2010
Integrateds				
R D Shell (GBp)	203.44	193.67	184.04	180.32
BP (GBp)	50.01	53.78	55.12	53.70
Total (€)	5.24	5.95	6.11	6.30
Eni (€)	2.56	2.51	2.52	2.49
Statoil (NKr)	15.58	16.96	17.04	16.75
BG Group (GBp)	52.95	57.72	59.02	59.59
Hydro (NKr)	16.54	16.84	16.56	15.88
Repsol (€)	2.47	2.41	2.48	2.74
OMV (€)	5.01	4.91	5.61	5.43
Refiners				
Neste (€)	2.03	2.13	2.28	2.31
Saras (€)	0.32	0.38	0.39	0.38
ERG (€)	1.61	1.98	2.28	2.46
Galp (€)	0.67	0.56	0.68	0.71
Petroplus ($)	5.00	9.98	11.08	11.23
E&P's				
Tullow (GBp)	18.71	23.06	16.18	11.01
Soco (US$c)	38.27	88.07	166.94	176.89
Dana (GBp)	75.72	113.57	116.31	91.42
Cairn (US$c)	14.72	2.54	167.09	449.19
Burren (US$c)	202.96	236.24	254.26	290.87
Russians (in US$)				
Rosneft	0.44	0.50	0.56	0.76
Gazprom	3.63	4.38	4.49	4.77
Lukoil	8.98	7.43	6.69	6.85
Novatek	2.07	2.45	3.47	5.64
Surgutneftegaz	0.13	0.11	0.13	0.13
Gazpromneft	0.58	0.42	0.43	0.46

Source: Morgan Stanley Research estimates

Integrated oils – price targets raised by 6%

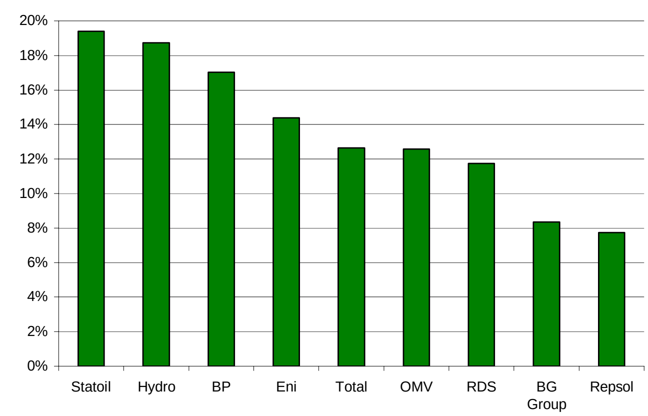
Earnings changes

As we have discussed, there are a number of moving parts to changes we have made to our estimates. The $10/bbl increase in long-term prices to $65/bbl is the most important and does have a significant impact on earnings. Incorporating also the 50 cents increase in US gas prices (which mostly impacts BP and Shell), the greatest impact from our upstream macro changes is for the Norwegians at nearly 20% with the lowest at Repsol at just under 8%.

However, we have also factored higher costs in our earnings estimates going forward. Higher oil prices should ensure that activity levels remain significantly higher than in the past. With recent industry comments indicating no slowdown in cost inflation, we have now incorporated around 10% cost inflation per annum across the sector. The only exceptions are at OMV where we expect some benefits from the restructuring at Petrom and for the Norwegians where management indicates 2007 operating costs per barrel are inflated by higher than expected maintenance.

Exhibit 6

2009 EPS Forecast Changes (oil and gas price change only)



Source: Morgan Stanley Research estimates

Exhibit 7

Revised Group Operating Expenditure Forecasts, 2007–10e (US$/bbl)

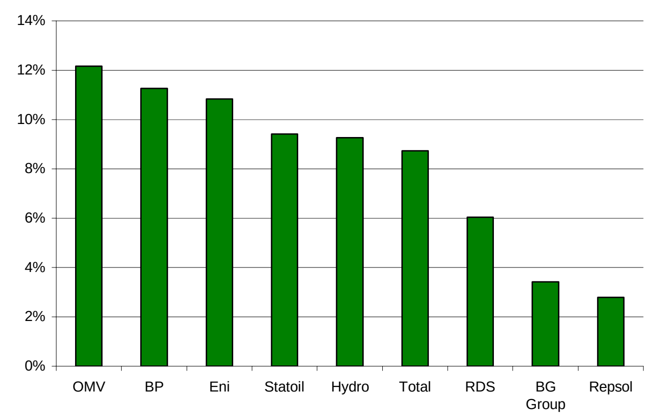
	2007	2008	2009	2010	2007-10 CAGR
RD Shell	8.0	8.7	9.5	10.3	9%
BP	5.0	5.5	5.2	6.7	10%
Total	4.5	4.5	5.2	5.5	7%
Eni	4.6	5.0	5.5	6.0	9%
Statoil	4.8	5.3	5.8	6.3	9%
BG Group	4.3	4.8	5.3	5.8	10%
Norsk Hydro	6.4	7.3	7.5	8.0	8%
Repsol	1.5	1.8	2.0	2.1	12%
OMV	12.1	12.3	12.3	12.7	2%
Sector					**9%**

Source: Morgan Stanley Research estimates

The earnings moves are further tempered by the reduction in our forecasts on the dollar. In the chart below, we show the net impact from the oil and gas price changes and the reduction in the dollar. On average, we see earnings changes in 2009 of some 8%. The greatest change is at OMV at 12%, which has become more sensitive to oil prices following the acquisition of Petrom. The least meaningful change is at Repsol (c. 3%) as it remains relatively insensitive to upward moves in oil prices due to the tax terms in Argentina, but as with the rest suffers from the move in the currency. Among the supermajors, BP is the greatest beneficiary (2009 EPS +11%) as it is more upstream biased and benefits from its US gas position.

Exhibit 8

2009 EPS Forecast Changes (including oil, gas, refining and FX changes)



Source: Morgan Stanley Research estimates

PEs at around 10x, FCF yields raised

Our new assumptions imply oil prices remain constant from 2006 levels. On this basis, future earnings growth should therefore then be a function of operational momentum (in most cases upstream), stock-specific macro drivers such as local gas prices for Repsol in Argentina and for OMV in Romania and assumptions on cost and capital inflation. Our new estimates imply a flat earnings profile compared to our previous estimate of -3%. PEs for the group remain around 10x and free cash flow yields for the group average around 5% from 2008 onwards.

Exhibit 9

Integrated PEs, 2007-10e

	2007e	2008e	2009e	2010e
RD Shell	9.7x	10.1x	10.6x	10.8x
BP	11.4x	10.5x	10.2x	10.5x
Total	10.6x	9.3x	9.1x	8.8x
Eni	10.0x	10.1x	10.1x	10.2x
Statoil	11.2x	10.2x	10.1x	10.3x
BG Group	15.1x	13.8x	13.5x	13.4x
Hydro	12.8x	12.5x	12.8x	13.3x
Repsol	10.9x	11.1x	10.8x	9.7x
OMV	9.3x	9.5x	8.3x	8.5x
Sector	**10.9x**	**10.4x**	**10.4x**	**10.5x**

Source: Morgan Stanley Research estimates

Exhibit 10

Integrated FCF Yield, 2007-10e (%)

	2007e	2008e	2009e	2010e
RD Shell (%)	9.5	5.2	5.6	5.8
BP (%)	5.8	5.5	6.2	6.0
Total (%)	5.5	6.2	6.9	7.5
Eni (%)	5.8	5.6	5.7	5.8
Statoil (%)	3.3	6.2	7.4	8.0
BG Group (%)	3.1	1.7	2.3	2.8
Hydro (%)	3.8	3.6	4.2	4.4
Repsol (%)	3.2	-2.8	-1.1	3.5
OMV (%)	6.5	6.8	10.3	9.8
Sector (%)	**5.3**	**5.0**	**5.8**	**6.2**

Source: Morgan Stanley Research estimates

Integrateds: Price target changes and summary

The earnings uplift has positive implications for our fair value estimates. Our primary tool has been discounted cash flows but more recently, we have also explored valuation of the integrateds on a disaggregated basis. Long-term cash flows continue to be estimated using returns and despite higher oil prices, we make no change to our assumption that long-term returns for the industry converge to just above cost of capital at 10% as government take increases and costs continue to rise. We estimate that on average fair value increases by 6%. As a result, we have also modestly raised our price targets for the group (see Exhibit 11).

Exhibit 11

Integrateds: Price Target Changes

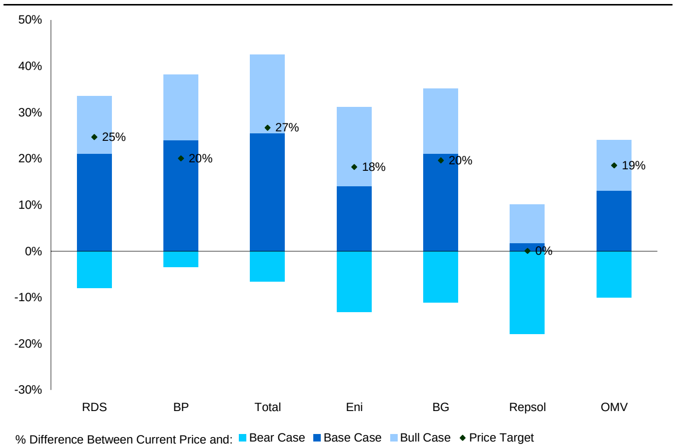
	Share Price (as of 31/08/07)	Old PT	New PT	Change in PT	Upside / (Downside)
RD Shell (GBp)	1925	2300	2400	4%	25%
BP (GBp)	558	630	670	6%	20%
Total (€)	55.25	65.5	70.0	7%	27%
Eni (€)	25.38	28.5	30.0	5%	18%
BG Group (GBp)	794	900	950	6%	20%
Repsol (€)	26.48	25.3	26.5	5%	0%
OMV (€)	45.55	49.5	52.0	5%	14%
Sector				**6%**	**21%**

Source: Morgan Stanley Research estimates

We prefer other sub-sectors in Energy to the large caps, namely the Oilfield Services and the E&Ps. However, we expect the Integrateds to outperform wider markets over the next 12 months. Our appetite for the Supermajors has also increased through the course of 2007. Prior to the recent volatility in oil and equity markets, we believed that these names were fundamentally undervalued. We see no reason to change this view.

Over the last few years, share prices for Energy stocks have risen largely against a backdrop of positive earnings revisions. The upgrade to mid-cycle prices today moves us to above consensus. We think others will follow suit and believe that investors' perceptions of the value of the existing asset base will rise. We have also seen value unlocked in other sectors as the market focuses on disaggregated valuations. We believe this is likely to continue and on this basis, our analysis suggests there is significant upside even to our newly revised price targets. With conventional valuations also undemanding at 10x PE (2007-09), and investor confidence and perceptions of growth likely to improve as the majors start to finally deliver on upstream growth, we also believe that multiple expansion from these levels should be possible. Our preferred names are Total and BG Group.

Exhibit 12
Integrateds: Risk-reward summary



Source: Morgan Stanley Research estimates

Refiners – price targets reduced by 4%

We are lowering our earnings for the European refiners by around 12% for 2007 and 2008 to reflect changes in our margin assumptions, which we outline below.

- 3Q07 – with the quarter over two thirds completed, we are marking-to-market our Q3 margin assumption implying a Q3 refining margin of $6.60/bbl.

- 4Q07 – due to a warm winter last year, middle distillate inventories in Europe started the year some 11.1mbbls above historical levels and have since remained consistently ahead of previous years levels. We anticipate that unless we see a major reduction in inventory levels due to an unsuccessful maintenance season, a sharp turn in weather conditions or an overly active hurricane season, the European refining margin will be more in line with the levels experienced in 4Q05 ($7.50). We are therefore reducing our 4Q07 refining margin assumption by 12% to $7.00/bbl.

- FY2008 – based on our global estimate of new refining capacity and demand we have previously assessed that global capacity supply additions will exceed supply in 2008 by some 130 kbb/d. Therefore, we have modestly reduced our margin estimate by 7% to $6.75/bbl to reflect this view.

We have also incorporated the higher oil price assumptions into input costs for the group and this has a greater negative impact for refiners with high own fuel consumption (Petroplus and Galp). The change in the currency also has negative implications with refining a dollar business and representing roughly 70% of EBIT of our names under coverage. Together with the currency change, we show the net changes to earnings in Exhibit 13.

Exhibit 13
EPS Changes Incorporating Refining Margin, FX rate Moves and Higher Crude Assumption

Changes	**2007**	**2008**	**2009**
Neste	-7%	-10%	-6%
Saras	-5%	-7%	-3%
ERG	-16%	-18%	-4%
Galp	-2%	-2%	5%
Petroplus	-34%	-23%	-13%
Sector	**-10%**	**-13%**	**-5%**

Source: Morgan Stanley Research estimates

Price target changes and summary

Our fair value calculations are based on DCFs and driven more by our mid-cycle refining assumption, which is unchanged at $6.75/bbl. Therefore, changes to price targets, while negative, are more muted than the near-term earnings revisions.

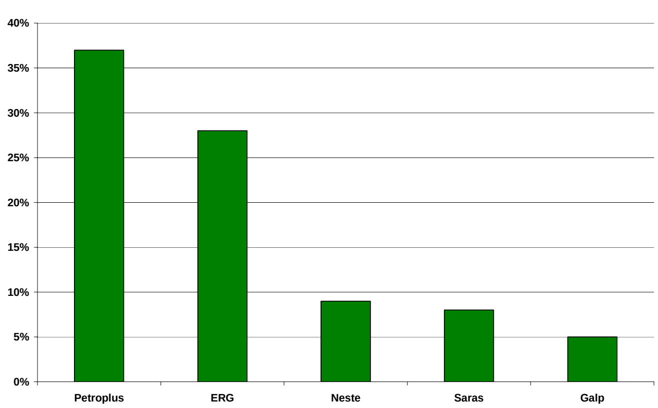
Exhibit 14
Refining Price Target Changes

Local currency	**Old PT**	**New PT**	**Move in PT**
Neste	28	26.5	-5%
Saras	4.9	4.7	-4%
ERG	21	19.25	-8%
Galp	11.4	11.6	2%
Petroplus	160	142.5	-11%
Sector			**-4%**

Source: Morgan Stanley Research estimates

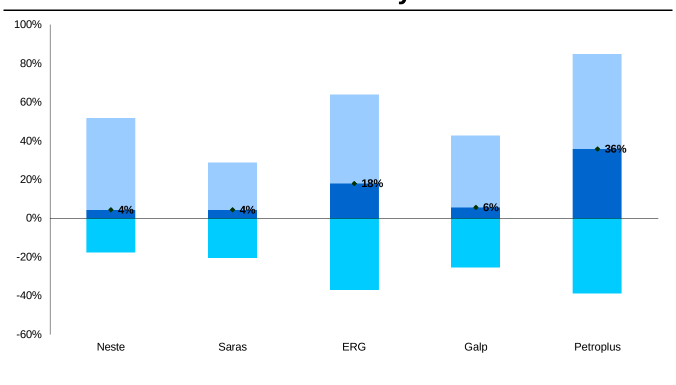
Overall, we remain cautious on the group relative to other Energy sectors. The group has been the best sub-sector year to date, driven by a more robust environment than expected in the first half but also by stock-specific catalysts (Galp E&P exploration success, and Petroplus accretive deals and MOL's M&A speculation). Margins though have also been very volatile from the seasonal highs in May and the seasonal lows experienced in July. At this juncture, we think that the simple margin trade has probably passed for the time being. We acknowledge there could be support from further unplanned downtime or even from impacts from a late hurricane season in the US. Margins should now also start being determined in Europe by demand for winter grade products. Therefore, for the remainder of 2007, our base case is that we do not see significant positive momentum for refining shares from a macro perspective given that middle distillate inventories remain above historical averages.

Exhibit 15
Impact of a $1/bbl Move in Refining Margins to DCFs



Source: Morgan Stanley Research estimates

Exhibit 16
Refiners: Risk-reward Summary

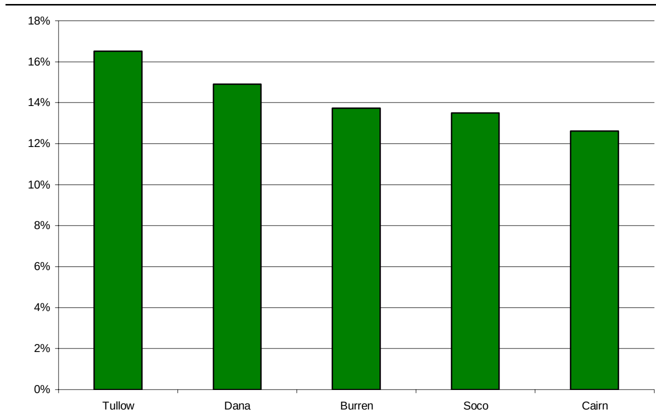


Source: Morgan Stanley Research estimates

E&P – price targets raised by 15%

The group is the greatest beneficiary of higher mid-cycle prices. We estimate that earnings for the group rise by around 18% on average for 2009 and 2010. The effect of $6/bbl increase in oil prices for next year is partly offset for Tullow and Dana by our assumption of lower UK gas prices (now 34.5p/therm). We estimate the fair value or NAVs increase by 15% on average incorporating our macro changes.

Exhibit 17
Impact of Macro Changes to Base Case NAVs



Source: Morgan Stanley Research estimates

We are also making a number of other changes to individual NAVs, which we outline below. The net impact incorporating stock-specific items and macro changes are shown in Exhibit 18.

Exhibit 18
E&P NAV Changes

	Old NAV (GBp)	New NAV (GBp)	Move in NAV (%)
Tullow	510	629	23
Soco	2026	2400	18
Dana	1187	1236	4
Cairn	1819	2161	19
Burren	837	944	13

Source: Morgan Stanley Research estimates

Price target changes and summary

We are raising our price targets by 15% to reflect higher fair value estimates. However, we have changed the premium/discount to our base case NAV on which we set our price targets. The principal reason for this change is driven by the fact that we had previously argued that E&P names would trade at a premium to our NAVs as we expected the market to look to discount higher mid-cycle prices than our own forecast of $55/bbl. Given that we have now revised our estimates to above-consensus estimates (at $65/bbl), we believe it is no longer appropriate to include this premium.

The group remains one of our preferred sub-sectors alongside the Oilfield services. Perceptions of rising oil prices should mean a greater value being placed on the existing asset base. Secondly, it should encourage higher activity levels in exploration and a premium placed on those names that offer high quality exploration portfolios. After a damp start to the year, interest in the group has picked up following notable successes by Tullow (in Ghana and Uganda) and Soco in Vietnam. We expect that with support from crude prices, increased activity levels in exploration and potential for consolidation, the group looks set to continue its recent outperformance.

Exhibit 19
Price Target Changes to E&Ps

	Share Price (as of 31/08/07)	Old PT	New PT	Change in PT	Upside / (Downside)
Tullow (GBp)	512	610	690	13%	35%
Soco (GBp)	1996	2330	2750	18%	38%
Dana (GBp)	968	1300	1300	0%	34%
Cairn (GBp)	1797	1750	2160	23%	20%
Burren (GBp)	811	835	950	14%	17%
Sector (%)				**15**	**29**

Source: Morgan Stanley Research estimates

Tullow

We have updated our base case NAV to incorporate:

- Higher reserve potential from Mputa (Uganda) following the positive update on the Mputa-3 well. We have included a further 60mn boe of reserves (gross) in our estimate of contingent reserves from Mputa, maintaining a risk factor of 75%. We have also included 80mn boe of reserves (gross) in our appraisal upside and assumed a risk factor of 50%. These changes increase our core NAV by 27p/share.
- Higher reserve potential from Ghana following the positive update and increased guidance at the interim results presentation. We have included a further 50mn boe of reserves (gross) to 450mn boe in our estimate of contingent reserves from Mahogany/Hyedua, maintaining a risk factor of 90%. We have included a further 250m boe (gross) to 650m boe in our exploration upside from Mahogany/Hyedua. We have also raised by a further 200mn boe of reserves (gross) to 800mn boe in our exploration upside for other prospects in the block and assumed a risk factor of 40%. These changes increase our base case NAV by 37p/share.
- Other minor changes.

Our price target of 690p/share is derived by applying a 10% premium (previously 20%) to our base case NAV of 629p. We maintain a premium to Tullow's base case given the increased level of newsflow that we anticipate in the coming months.

Soco

We have updated our base case NAV to incorporate:

- Increased the chance of success from 17% to 66% on Prospect "O" following a positive update at the interim results. The well has identified oil shows of 70 metres and will be tested during the next two weeks. This increases our base case NAV by 124p/share.
- Increased net debt of $112mn (from $32mn).
- Other minor changes.

Our price target of 2750p is derived by applying a c. 15% premium to our base case NAV of 2400p. We maintain a premium to Soco's base case given the increased level of newsflow that we anticipate in the coming months. Further drilling success this year could bring the company closer to an M&A end game with management already indicating a willingness to sell.

Dana

We have updated our base case NAV to incorporate:

- Updated exploration drilling program in 2007 and 2008 following the 1H07 trading update.
- Included the Jotun field in the core NAV, which was acquired as part of the Ener Petroleum acquisition.
- Net debt position increased to £110mn from £75mn.
- Other minor changes.

Our price target of 1300p is derived by applying around a 5% premium (previously 10%) to our base case NAV of 1236p. We believe this is justified given the risk of increased consolidation in the sector and material newsflow on deals and exploration from the company in the coming months.

Cairn

We have updated our base case NAV to incorporate:

- Included Cess tax of Rs900/ton on the Rajasthan fields.

- Updated net cash position in Cairn India and Cairn Energy.
- Increased exploration potential from Rajasthan to 25% of oil-in-place from 20%.
- Increased the risk factor on the small discoveries in Rajasthan from 25% to 33%.
- Rupee exchange rate to $1:Rs41.20.
- Other minor changes.

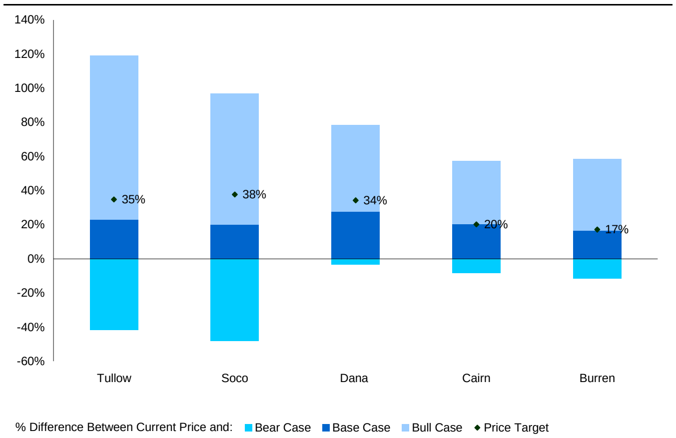
We have set our 12-month price target of 2160p in line with our base case NAV at 2161p/share. We feel this is justified given the risks surrounding the development of the Rajasthan fields and the lack of material exploration.

Burren
We have updated our base case NAV to incorporate:

- We have removed the exploration potential for Oman following the relinquishment of the licence.
- Increased net cash to $64mn from $47mn.

Our price target of 950p/share is in line with our base case NAV at 944p/share. We believe this is justified given the lack of material exploration and appraisal upside potential in the short term and the uncertainty surrounding the political situation in Turkmenistan.

Exhibit 20
E&P: Risk-reward summary



Source: Morgan Stanley Research estimates

Russian oils

The net result from today's macro changes is an increase in fair value of 5-15%, similar in magnitude to the fair value increases posted by our colleagues covering the European oil & gas names.

We think Russian oil & gas offers excellent value, and stress that the acceptance of structurally higher crude prices is a fundamental endorsement of Russia as a long-term 'winner' in global energy, despite our decision to hold the line on price targets. The precise justifications for our model changes in response to the price upgrade will be explained in a separate research note.

Price Target Methodologies and Risks

Integrateds – price targets and risks

We utilize DCF as our primary means of valuation. Our DCF valuations are based on a WACC of 7%, $64/bbl Brent price, 10% cost inflation and long-term growth of 2% for all stocks except Total and BG, which have been run off an increased rate of 3% in recognition of their future upstream growth. Sector-specific upside/downside risks include macro conditions and specifically oil and gas prices.

BP – PT 670p. Specific risks to our price target on the downside are: its TNK-BP subsidiary, which exposes BP to a significant degree to political and economic risks in Russia; failure to deliver on downstream. Upside risks may include a further material increase in distribution by the company, either in the form of buybacks or a special dividend.

Shell – PT 2400p. Specific risks to our price targets include: on the downside, further significant negative newsflow particularly on reserves, volumes and capex; and on the upside, a more aggressive restructuring programme and/or a significantly higher than expected cash distribution to shareholders.

Total – PT €70. Risks to our price target include, on the upside, the announcement of a more radical restructuring in both R&M and chemicals and, on the downside, a sizeable acquisition, downgrades to volume growth targets.

Eni – PT €30. Risks to our price target on the upside include a significant increase in the dividend and/or the possibility of a share buyback and a sizeable organic exploration success. Downside risks include potential cost over-runs or delays at its giant Kashagan project.

BG – PT 950p. Risks to our price target include, on the upside, delivery and extension of growth targets, and, on the downside, any significant deterioration in the top-quartile E&P business, and failure to meet the recently set growth targets in the upstream and LNG businesses.

Repsol – PT €26.5. Risks to our price target include Argentine gas prices and the value of the Bolivian upstream. Specific risks on the downside are expropriation of assets in Argentina, or elsewhere in Latin America, and potential capex increases in the upstream business. On the upside, news flow on M&A in Iberia or further purchases by strategic investors could present risks.

OMV – PT €54. Risks to our price target include, on the upside: faster than expected liberalisation of the Romanian natural gas market, a possible extension of the Druzhba pipeline and a widening Brent-Urals spread; and, on the downside: increased gasoline tax tariff at Petrom, customer resistance to gas price increases in Romania, or a downturn in the economies in emerging Europe.

Refiners – Price targets and risks

We utilize DCF as our primary means of valuation for the refiners, with Galp being valued on a sum-of-the-parts basis due to the diversified nature of its earnings stream. Our DCF valuations are based on a WACC of 7.5% and a long term refining margin of $6.75/bbl. For Petroplus, we also add SFr 15/share to our current asset valuation in recognition of the company's acquisition strategy and its ability to close further deals in the next 12 months.

Galp's E&P business is valued using a long-term oil price assumption of $64/bbl and a recovery rate of 35% across all fields. The gas and power division is valued using peer group multiples. Each multiple is based off European utilities averages. Pipeline P/E 17x, gas supply and distribution EBITDA 10x and Power generation EV/EBITDA of 10x. Each multiple is checked against a DCF valuation for consistency.

Risk to price targets

Sector risks to our price targets include general macro conditions such as changes to refining margins, the light-heavy differential and the US dollar/euro exchange rate.

Company specific risks are highlighted below:

Petroplus – PT SFr 142.5. Company-specific risks on the upside include further announcements of value-accretive acquisitions and further synergies from previously announced deals. On the downside, we have the risk of other bidders replicating Petroplus's acquisition strategy.

Saras – PT €4.7. Company specific risks on the upside include approval of new wind farm assets or construction of the Algeria to Sardinia pipeline. On the downside, we have the risk of cost overruns on Saras's upgrading programme and changes to the CIP 6 tariff.

ERG – PT €19.25. Company-specific risks on the upside include approval of new wind farms, merger of wind power businesses and announcement of Sicilian LNG terminal. On the downside, we have the risk of further operational problems with its refining and power businesses, capex overruns on refinery and power upgrades and a reduction in the CIP6 tariff.

Neste – PT €26.5. Company-specific risks on the upside include an announcement of a large-scale bio-diesel development. On the downside, we have the risk of limited earnings diversification, further problems with the ramping of the diesel project, and on bio-diesel, the reduction or total withdrawal of government subsidies along with an increase in agriculture feedstock prices.

Galp – PT €11.6. Company-specific upside risks come from the successful award of CCGT power, future success in exploration and growth in Portuguese gas consumption. On the downside, we have the risk of negative changes to the Portuguese natural gas consumption, slower domestic GDP growth, capex overruns on upstream and refining investments, and lack of further exploration success.

E&P – Price targets and risks

Our price targets for the UK E&Ps are derived from a combination of our net asset valuation (based on our long-term oil price assumption of US$64/bbl Brent and 41.0p/therm for UK gas prices) and more subjective factors. Our base net asset valuation is essentially the discounted cash flows on a field-by-field basis and our best estimate of risk upside. At any given oil price, we expect E&P shares to trade somewhere between a core valuation and a bull case scenario. The premium (or discount) to the core value is mostly determined by: 1) short-term oil prices and the perception of longer-term oil prices; and 2) levels of M&A activity in the industry. Within this framework, individual companies are likely to trade at different premium/discounts depending on specific stock characteristics. These are as follows:

- the potential for upgrades to existing reserves (commercial and technical);
- the potential for appraisal upside from additional discoveries for which actual volumes are yet to be determined;
- exploration activity; and
- newsflow intensity around the shares.

Risk to price targets

Exploration is a high-risk business. Putting this together with uncertainty over short-term commodity prices, we assign a volatility flag to our ratings for the UK E&P stocks. The following are key drivers for the sector that may lead the shares to under or outperform our assumptions:

Downside: 1) A sharp fall in commodity prices; 2) disappointing exploration or appraisal;. 3) increases to capex/delays to development projects; 4) increased political and fiscal risks.

Upside: 1) A continued increase in short-term and longer-term assumptions of commodity prices; 2) better than assumed exploration success; 3) increased M&A activity in the industry.

Company specific risks are highlighted below:

Tullow – PT 690p. Company-specific risks on the downside include: 1) disappointing drilling results from the UK, Uganda or India; 2) a significant delay in the gas sales agreement for phase 1 Kudu and unsuccessful appraisal for phase 2; 3) operational problems at existing fields; 4) weakness in the UK gas price. On the upside, we see risks from materially better success from the drill bit.

Soco – PT 2750p. Company-specific risks on the downside include disappointing drilling results from Vietnam, Yemen and Congo. On the upside, we see risks from materially better success from the drill bit.

Dana – PT 1300p. Company specific risks on the downside include: 1) disappointing drilling results from UK, Norway and Egypt; 2) operational problems on existing fields in the UK portfolio; 3) weakness in the UK gas price. On the upside, we see risks from materially better success from the drill bit.

Cairn – PT 2160p. Company specific risks on the downside include: 1) delays in the timetable for development of existing assets in Rajasthan; 2) disappointing appraisal upside from Rajasthan. On the upside, we see risks from materially better success from the drill bit.

Burren – PT 950p. Company specific risks on the downside include: 1) operational difficulties at existing core assets (Burun and M'Boundi); 2) political instability in Turkmenistan. On the upside, we see risks from: 1) materially better exploration success from drilling in the Congo; 2) better than anticipated appraisal from water injection at M'Boundi; 3) an earlier than expected sales agreement for Turkmenistan.

Russian Oils – Price targets and risks

Gazprom. We set our price target at $63.35 per DR. This price is based on a 15-year DCF model, assuming a WACC of 9.1% and terminal growth of 3%. Upside risks to price target include (1) increases in long-term European export prices, (2) value accretive acquisitions, (3) cost cutting/efficiency gains. Downside risks include: (1) decline in commodity prices, (2) lower rise in domestic gas prices, (3) deteriorating operating efficiency and (4) increases in production taxes.

Rosneft. We set our price target at $10.90 per share. This price is based on a 14-year DCF model, assuming a WACC of 9.2% and terminal growth of 3% and additional upside from value accretive acquisitions. Upside risks to price target include (1) favorable strategic partnerships and regulatory benefits, (2) increases in long-term export prices. Downside risks include: (1) inability to effectively integrate new acquisitions (2) disappointments in production growth, (3) failure to make new value accretive acquisitions.

Lukoil. Our target of US$105.3 is based on a 14-year DCF model, assuming a WACC of 9.2% and terminal growth of 3%. Upside risks to our price target include (1) faster output growth rate (2) value accretive acquisitions (3) development of a value accretive gas downstream component.
Downside risks include: (1) rouble appreciation and (2) lower oil and gas commodity prices (3) capex overruns.

Novatek. We set a target of US$68.3 per ADR based on a 14-year DCF model, using a WACC of 11.5% and terminal growth of 3%. Upside risks to our price target include: (1) profitable reinvestment of mounting free-cash and (2) LT increases in export prices to Europe, given that domestic price will be formed by netback from 2011. Downside risks include: (1) higher than expected increases in production taxes 2) a lower than expected domestic demand gap due either to strong Gazprom production or weaker overall demand, and (3) further increases in gas transport costs.

Surgutneftegaz. Our target price of US$1.66 assumes a WACC of 9.2% and terminal growth of 3%. The price target is generated by establishing a firm valuation with DCF – the assumptions for which are explained most recently in our 13 March 2007 report *Trophy or Atrophy*. The critical valuation element with Surgutneftegaz remains the uncertainty over the number of shares outstanding, hence our Base Case valuation is a weighted average of our Bull and Bear estimates for the share total. The main upside risk we see is (1) positive shift in corporate governance relating to the cancellation of the strategic reserve shares and (2) dividend payment more reflective of the company's cash position. Downside risks include (1) failure to disburse or put to productive use its large cash position (2) evidence confirming that shares previously held by the company are no longer under its control.

Gazpromneft. Our target of US$4.60 . We assume a WACC of 9.3% and terminal growth of 3%. Key upside risk to our price target is endorsement by Gazprom of any programme to enlarge free-float. Downside risks centre primarily on the prospect of Sibneft evolving into a cost-centre within Gazprom.

Exhibit 21

Modelware EPS Estimates – 2007e to 2010e

		2007	2008	2009	2010
Integrateds					
BG	GBp	52.95	57.71	59.01	59.58
BP	US$c	105.49	107.56	110.25	107.41
Eni	€	2.55	2.51	2.52	2.49
Norsk Hydro	NKr	16.54	16.84	16.56	15.88
Repsol	€	2.46	2.41	2.48	2.74
Royal Dutch Shell	US$c	217.36	192.08	182.53	178.84
Statoil	NKr	15.58	16.96	17.04	16.75
Total	€	5.38	5.98	6.13	6.32
OMV	€	4.98	4.91	5.61	5.43
E&P's					
Soco International	US$c	38.27	88.07	166.94	176.89
Tullow Oil	GBp	18.79	23.06	16.18	11.01
Dana Petroleum	GBp	75.72	113.57	116.31	91.42
Cairn Energy	US$c	14.72	2.54	167.09	449.19
Burren Energy	US$c	202.96	236.24	254.26	290.87
Refiners					
Neste	€	2.03	2.13	2.28	NA
ERG	€	1.61	1.98	2.28	2.46
Saras	€	0.32	0.38	0.39	0.38
Galp	€	0.65	0.56	0.68	0.71
Petroplus	€	5.00	9.98	11.08	NA
Russians					
Rosneft	US$	0.44	0.50	0.56	0.76
Gazprom	US$	3.63	4.38	4.49	4.77
LUKOIL	US$	8.98	7.43	6.69	6.85
Novatek	US$	2.07	2.45	3.47	5.64
Surgutneftegaz	US$	0.13	0.11	0.13	0.13
Gazprom Neft	US$	0.58	0.42	0.43	0.46

Source: Morgan Stanley Research estimates

Morgan Stanley & Co. Limited, an affiliate of Morgan Stanley, is acting as financial advisor to Statoil ASA ("Statoil") in connection with the proposed merger with Norsk Hydro ASA's ("Norsk Hydro") oil and gas business announced on 18th December 2006.

In accordance with its general policy, Morgan Stanley currently expresses no rating or price target on Statoil or Norsk Hydro. The report and the information herein are not intended to serve as an endorsement of the proposed transaction. This report was prepared solely upon information generally available to the public. Morgan Stanley has not verified the accuracy or completeness of such information. No representation is made that it is accurate and complete. This report is not a recommendation or an offer to buy or sell the securities mentioned. Please refer to the notes at the end of this report.

Morgan Stanley & Co. Limited, an affiliate of Morgan Stanley, has provided a fairness opinion to Eni SpA in connection with its acquisition of assets from Dominion Resources Inc. as announced on 30th April 2007.

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As of July 31, 2007, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in this report: BP plc, Burren Energy, Cairn Energy, Dana Petroleum, Eni SpA, Hellenic Petroleum, Neste Oil, Norsk Hydro AS, Petroplus, Repsol-YPF, Royal Dutch Shell, TOTAL, Tullow Oil.

As of July 31, 2007, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in this report (including where guarantor of the securities): BP plc, Eni SpA, Gazprom, Norsk Hydro AS, Royal Dutch Shell, Statoil, TOTAL.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering of securities of Cairn Energy, Galp Energia.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from BG Group, BP plc, Eni SpA, Gazprom, Mol, Norsk Hydro AS, OMV AG, Repsol-YPF, Royal Dutch Shell, Statoil.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from BG Group, BP plc, Cairn Energy, Eni SpA, ERG, Galp Energia, Gazprom, Hellenic Petroleum, Mol, Neste Oil, Norsk Hydro AS, OMV AG, PKN Orlen, Repsol-YPF, Royal Dutch Shell, Saras, Sasol, Statoil, TOTAL, Tullow Oil.

Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from BG Group, BP plc, Eni SpA, ERG, Gazprom, Hellenic Petroleum, Mol, Motor Oil, Neste Oil, Norsk Hydro AS, OMV AG, Petroplus, Repsol-YPF, Royal Dutch Shell, Saras, Sasol, Statoil, TOTAL, Tullow Oil.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following companies covered in this report: BG Group, BP plc, Cairn Energy, Eni SpA, ERG, Galp Energia, Gazprom, Hellenic Petroleum, Mol, Neste Oil, Norsk Hydro AS, OMV AG, PKN Orlen, Repsol-YPF, Royal Dutch Shell, Saras, Sasol, Statoil, TOTAL, Tullow Oil.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following companies covered in this report: BG Group, BP plc, Eni SpA, ERG, Gazprom, Hellenic Petroleum, Mol, Motor Oil, Neste Oil, Norsk Hydro AS, OMV AG, Petroplus, Repsol-YPF, Royal Dutch Shell, Saras, Sasol, Statoil, TOTAL, Tullow Oil.

Within the last 12 months, an affiliate of Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from Petroplus.

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley & Co. International plc is a corporate broker to BG Group.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, Morgan Stanley uses a relative rating system including terms such as Overweight, Equal-weight or Underweight (see definitions below). A rating system using terms such as buy, hold and sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of August 31, 2007)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Underweight to hold and sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**934**	**41%**	**321**	**43%**	**34%**
Equal-weight/Hold	**1015**	**44%**	**328**	**44%**	**32%**
Underweight/Sell	**333**	**15%**	**92**	**12%**	**28%**
Total	**2,282**		**741**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Industry Coverage:Oil & Gas

Company (Ticker)	Rating (as of)	Price (09/03/2007)
Michael J Alsford		
Burren Energy (BUR.L)	E-V (03/22/2007)	807p
Cairn Energy (CNE.L)	E-V (03/22/2007)	1,765p
Dana Petroleum (DNX.L)	O-V (08/07/2006)	991p
SOCO International (SIA.L)	O-V (03/22/2007)	2,017p
Tullow Oil (TLW.L)	O-V (01/15/2007)	513p
Andrew Bowman		
ERG (ERG.MI)	E (06/28/2006)	€16.55
Galp Energia (GALP.LS)	O-V (02/23/2007)	€11.06
Neste Oil (NES1V.HE)	E (10/23/2006)	€24.83
Petroplus (PPHN.S)	O-V (01/15/2007)	SFr107.5
Saras (SRS.MI)	E (06/28/2006)	€4.49
Theepan Jothilingam, CFA		
Eni SpA (ENI.MI)	E (03/05/2007)	€25.22
Norsk Hydro AS (NHY.OL)	++	NKr215.5
Repsol-YPF (REP.MC)	U (03/21/2007)	€26.45
Sasol (SOLJ.J)	O (06/14/2007)	ZAc28,800
Statoil (STL.OL)	++	NKr167.75
Hellenic Petroleum (HEPr.AT)	U (09/21/2006)	€10.34
Motor Oil (MORr.AT)	E (09/21/2006)	€18.02
Neil W Perry		
BG Group (BG.L)	O (09/13/2006)	782p
BP plc (BP.L)	E (09/21/2006)	551p
Mol (MOLB.BU)	E (10/23/2006)	HUF26,200
OMV AG (OMVV.VI)	E (08/18/2006)	€45.36
PKN Orlen (PKNA.WA)	E (10/23/2006)	PLN58.4
Royal Dutch Shell (RDSa.L)	NA ()	1,921p
Royal Dutch Shell (RDSb.L)	E (06/27/2007)	1,929p
TOTAL (TOTF.PA)	O (03/15/2007)	€54.83

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